Next Liberty Loan Must Yield Higher Return to Investors, Is Bankers' View

Majority Believe That With People Facing Heavy Tax Payments, Industrial Situation Unsettled by Fuel Crisis, Outstanding Issues Selling Below Par and Way Not Cleared for Small Investors to Take Up Further Burdens, Government Will Either Have to Pay More for Funds or Sell Bonds at Discount to Insure Widest Possible Distribution

By William Justus Boies

NO QUESTION considered by American financiers since the world war began has been more difficult to answer than what is the proper interest rate to be named by the government for the next Liberty Loan. The Treasury is confronted by the fact that its 4 per cent bonds, put out last October, are selling virtually at a 4½ per cent basis; that the forthcoming loan must be much larger than either of the others, since the government is under the necessity of raising from eight to ten billions by June 30 next, and that a decision to advance the interest rate to 4¼ or 4½ per cent would automatically put up the interest rate on the first and second Liberty loans, thereby adding largely to the cost of financing the war. It is recognized also that such action would influence all future borrowings for war purposes and cause a readjustment in security prices.

The situation, therefore, is utterly unprecedented and of interest to every borrower in the United States, since any rise in the interest rate on United States securities has direct bearing upon the cost of similar accommodation to private corporations and individuals. If the government has to pay, say, 4½ per cent for a loan offered in March as against 4 per cent for a loan marketed five months before, it means, other things being equal, that the cost of all lending operations has materially increased.

Bankers Asked For Suggestions

The Secretary of the Treasury, being deeply interested in financing the war outlays with 4 per cent loans, if possible, lately let it be known that he would welcome suggestions from bankers of the large reserve centres concerning the best way of handling the next loan. Some very interesting letters have been sent to Mr. McAdoo, the desire of bankers everywhere being to keep the interest rate on government loans as low as possible, so as not to further increase the cost of doing business, which would inevitably follow if the charge for mercantile accommodation should be raised following an advance in the interest rate on war borrowings. Appreciating the necessity of retaining the 4 per cent interest rate, if possible, Secretary McAdoo, in his annual report, says flatly that it may be better for the people to increase taxes than to raise the interest rate on government loans. He puts it bluntly:

> If a situation should develop where the government could not sell convertible and partly tax-exempt bonds upon a 4 per cent basis, it would, I believe, become necessary to seriously consider further revenue legislation. In my judgment, an increase in the rate of interest on such bonds would be extremely unwise and hurtful. The higher the rate on government bonds, the greater the cost to the American people of carrying on the war and the greater will be the depreciation in all other forms of investment securities. We cannot regard without concern, serious declines in the general value of fixed investments. It should be the earnest endeavor of every one to prevent this, and I earnestly hope that the processes of education and of unselfish consideration of the problem from the standpoint of general interest will provide the necessary remedy."

Much Opposition to Short Term Loan

This means that the third Liberty Loan to be announced soon will carry 4 per cent interest, if it is possible to offer inducements sufficient to make investors bid par for a bond carrying that rate. Patriotism is always an important factor in the successful sale of war loans, but the two and one-half billions in taxes which the people must pay over to the government by June 15, together with the burden of increased living expenses, make it necessary for the average investor to secure as large a return from his securities as it is possible to obtain. Various expedients have been suggested to the Treasury for meeting the situation, a novel proposal being for the issuance of a bond carrying an indeterminate rate of interest, so as to protect the market for other securities. This would lead to confusion, however, and perhaps imperil the success of the great loan. Other bankers believe that the goverment, by issuing a five-year loan, could obtain what money it needs at 4 per cent, since there is always a broad market for a high grade security having only a few years to run. This method of financing is opposed, however, by many as being unsuited to the needs of a government which could scarcely afford to provide for the requirements of a short war at a time when high military critics have been urging thoughtful men to reckon on a long drawn out conflict.

Rich Men Favor Tax Exempt Bonds

Other bankers contend that the government would do well to return to a tax-exempt bond as the security best adapted to attract investment support under such conditions as now prevail. The plea is made that with the heavy increase in income taxation it would be easy for the government to sell a few billions of tax-exempt bonds carrying a 4 per cent interest rate.

An interior banker, known as a high authority on investment conditions, who has served prominently on Liberty Loan committees, objected to this expedient as impracticable, adding: "You could not place a five billion loan or an eight billion loan this way. Rich men would make large purchases, but their combined support would be inadequate, in my judgment, to insure the success of a great 4 per cent loan. I think that the government should face conditions as they are and raise its bid for capital to a figure where the inducements would compel investments on a tremendous scale.

"The fact that the government has the highest credit of any borrower in the land is no reason why it should expect to stay on a 4 per cent basis in a 6 per cent money market. The success of the next loan should not be threatened by offering an income return out of conformity with the changed conditions which borrowers now face. Would it not be foolish for the government to attempt to swing an immense 4 per cent loan at par when the old 4s are quoted nearly 4 points below that level?

"Patriotism is all right, but the buying power of any community has to be appealed to effectively when an attempt is made to offer about the largest loan that the world has ever seen. I believe that conditions call for a 4½ per cent issue, in order to make the bonds go like hot cakes.'

In considering the possibilities of the next government loan offering, the activities of the proposed War Finance Corporation must be taken into account. This corporation, among other things, is empowered to make loans to savings banks upon the security of the bonds held by them. Since the corporation is permitted to create and issue notes up to four billion dollars, which shall be available for rediscount by the Federal Reserve banks, the question is whether the savings banks which have recourse to this great source of supply may not be able to make larger bond investments because of this possible assistance. As it is, the savings banks managers have been fearful of tying up too much money in the new war loans. Should the War Finance Corporation obtain legal existence immediately, however, the indications are that the savings banks would be able to fall back upon its facilities to an extent which would enable them to make larger purchases of government securities in the future than they have in the past. It is worth noting, also, that the proposed corporation has the right to subscribe for and to deal in government bonds.

Views of Bankers Are Conflicting

Some of the best known bankers in the United States hold highly conflicting views, however, concerning the best method for the government to pursue in getting its next great loan lodged with bona fide investors. James B. Forgan, chairman of the board of the First National Bank of Chicago, makes these pertinent suggestions with reference to the next great loan:

> The first thing to think about with reference to the third Liberty Loan is the absolute necessity of insuring its successful flotation. Every other consideration must be subordinated to the one idea of marketing the bonds to good advantage. As to the rate of interest, the current market price for the former issues must be a prime factor. The government could hardly expect to float a 4 per cent issue of bonds on exactly the same terms as the last when their market price has fallen to a 4¼ or a 4½ per cent basis. This would seem to indicate that the rate would have to be 4½ per cent, with other conditions the same as those of the last issue, except that it might be well to consider whether a five-year bond would not answer the purpose of the government at a time when it is necessary also to think of the effect of the new loan upon the market for other securities. I think that this possibility is worthy of serious thought.
>
> There is also the question of issuing an entirely tax-free bond. I think there is no doubt that a 4 per cent tax-free bond would sell quicker than a 4½ per cent bond that was subject to the surtax. It may be, however, that the same reasons which caused the government to change its policy in connection with the second Liberty Loan will have to be reckoned with, and that there is no intention of returning to the former policy of issuing tax-exempt securities.

William A. Law, president of the First National Bank of Philadelphia and ex-president of the American Bankers' Association, does not want to see the government offer a 4½ per cent bond. He puts it thus:

> I sincerely trust that the Treasury Department will not decide that the third Liberty Loan shall bear a higher rate of interest than 4 per cent. Should a 4½ per cent bond be issued further disturbances in the security market would probably result. My preference would be to see a 4 per cent bond issued at par, and I believe the people of the United States would absorb the issue. I also believe they would buy these bonds more readily if there were fewer technical differences in the various issues, which create discussion, waste time and effort and create misunderstandings. Government bonds are bought from patriotic motives and not as a matter of investment niceties. If necessary, I would rather see a 4 per cent bond sold at a discount than a 4½ per cent bond sold at par. It seems most wise for the government to issue short-time certificates of indebtedness for large amounts in anticipation of bond issues, and to make this year one great issue rather than several small ones.
>
> It seems better to continue selling the short-time certificates of indebtedness through the banks rather than to investors direct, as the banks are vitally interested in seeing tax funds withdrawn during a long period rather than have a great concentration of payments in June. Many banks have already advised their customers to invest in such certificates. We are constantly buying them for account of the large taxpayers among our clients, in addition to buying them for ourselves.

Opposes Selling Bonds at Discount

John G. Lonsdale, president of the National Bank of Commerce, in St. Louis, opposed any increase in the interest rate:

> I do not favor advancing the interest rate for the third Liberty Loan to 4½ per cent. I am aware that some concession must be made in order to enable these bonds to be sold, but I believe this should be in the nature of tax exemption or that the securities should run only two to five years. I believe that steps can be taken that will prevent any marked decline in the market price of 4 per cent bonds after the campaign is over.
>
> I am in favor of selling short-time securities direct to investors as well as to banks. It is becoming more and more difficult for private and corporate enterprises to sell their securities; in fact, the market for long-time issues is practically closed to everything but government bonds. Funds for commercial purposes are available from banks for all "essential" business because banks are conserving their resources for such financing.

David R. Forgan, president of the National City Bank of Chicago, thinks that the government has a sufficient problem to solve in determining a proper rate for the forthcoming loan. He says:

> I think the terms of the next Liberty Loan offer one of the hardest problems ever put up to financiers. The influences are so far-reaching that it is very difficult to decide just what is best. I do not favor advancing the rate of interest to 4½ per cent, but would rather see it 4¼. I think that rate would be less detrimental to general investments, and the bond at that rate would continue to sell at about par.
>
> I do not think the government should attempt to finance war outlays through the sale of Treasury certificates running for a short period. I think such transactions should be confined to anticipation of the issue of Liberty Loan bonds as they are at present. I do not favor selling such short-time securities direct to the investors when banks can take care of them.

James A. Latta, vice-president of the Northwestern National Bank of Minneapolis, thinks that a slight advance in interest rate may be necessary in order to insure large oversubscriptions to a new loan:

> It would seem to me that it would be better to make a slight advance in the Liberty Loan rate rather than to sell a 4 per cent bond at a discount. The prime essential is to have the issue liberally oversubscribed. Other considerations would seem to me to be of minor importance compared to this.
>
> It would seem to me that the sale of Treasury certificates of indebtedness should only be used as a final resort when bond issues cannot be sold on the right basis. I, of course, am not alluding to temporary certificates taken by banks in anticipation of bond sales.
>
> Short-time securities of the government only temporize with the situation and when used should be taken by banks and financial institutions pending long-time financing to be taken by the public. So far as the Northwest is concerned, we are in excellent shape. While money is in good demand there will be no difficulty in the centres taking proper care of all calls for legitimate purposes.

E. L. Robinson, vice-president of the Eutaw Savings Bank of Baltimore, a banker high in the councils of the Savings Bank Section of the American Bankers' Association, thus summarizes the situation:

> Having floated the two previous loans at par and having agreed with the subscribers of both loans to exchange their bonds for any later issues bearing a higher face rate interest, the government would commit an act of bad faith should it now issue a 4 per cent bond under par. A sale of its obligations at a discount would immediately discredit the borrowing capacity of the government and by the masses of the people would be regarded as an evidence of the weakening of their country's credit. It should be the aim of our government to keep its investors happy and satisfied, and such an act would alienate the good will of many small purchasers of past issues. Either course would result in a readjustment of stock and bond values to some degree, although it is a question whether present prices have not already in large measure discounted this readjustment. As an alternative why not consider a tax free 4 per cent bond? Outstanding issues should, of course, receive exchange privilege. One sagacious banker has said to me that, in his judgment, the entire war can be financed at 4 per cent if investors receive assurance of permanent tax exemption.
>
> I believe that the past high pressure methods of floating Liberty Loan bonds, if persisted in, will keep the whole financial fabric constantly agitated. But I am not prepared to say that the financing of war needs through frequent sales of Treasury certificates of indebtedness running a short period would have a tendency to give any greater market stability; in either event bank funds must be tied up in a very large measure.

Charles A. Hinsch, president of the American Bankers' Association and the Fifth-Third National Bank of Cincinnati, says:

> If the government authorizes a taxable bond, I think the rate would necessarily be 4½ per cent, but I will prefer to see a 4 per cent non-taxable bond issued. This would necessitate additional legislation in order that the present 4 per cent taxable bonds would be made non-taxable. The issuance of a new 4 per cent non-taxable bond would not affect the prices of other securities as much as the issuance of a 4½ per cent taxable bond.

Clyde H. Folsom, government bond expert, believes that a higher interest rate than 4 per cent is called for.

> My feeling has been for some time that it will be necessary to make the next issue a 4½ per cent bond, unless it should be finally decided to make the bonds tax-exempt, which is not generally favored. While a 4 per cent taxable bond might be forced on the market, the country as a whole would not willingly participate in a loan of that character. It has been suggested that it seemed necessary to name a 4½ per cent rate, the time to be limited to five years, which might seem best, as the prior issues would not be convertible into an issue of this character.
>
> If I were to decide the matter, I believe I would issue a 4½ per cent, five-year taxable bond, as without doubt conditions following the war would make it possible to conveniently redeem the loan within five years.

Five-Year Loan the Solution

By C. E. Mitchell

President National City Company

THE task of distributing the third Liberty Loan presents extraordinary problems which must, and of course will, be overcome. The first and second loans, involving long-term financing, and especially the second Liberty Loan, have not been digested; that is, the distribution into the hands of investors who hold by choice has not gone so far but that there is constant pressure of these bonds upon the market. The result is low prices, which will act as a damper upon the enthusiasm of the general public in the purchase of any new issues. So long as these prices remain at their present low levels, the pinch of the loss, even though it be a book loss, will retard buying. Purchasers on the installment plan are still in process of making their payments, and the way has not yet been cleared for the taking up of further burdens by these smaller purchasers, especially with the cost of living constantly increasing. That portion of the population of the United States who must take the great bulk of a new government issue will, during the next few weeks, be making up their income tax returns, and will be faced with the necessity of setting aside a large amount of cash for payment of income and war excess profits taxes. Many will ask themselves if their enthusiasm in the purchase of Liberty bonds heretofore has not been overstimulated, and many who have purchased freely, and have, at the same time, spent freely, will be perplexed as to where the money is coming from to pay the tax upon their 1917 incomes. The heatless days, the shutting down of factories weekly, and the loss in wages adds to the prevailing depression.

That the banks of the country must bear an increasing burden in government financing is obvious. That burden is to be represented in the bonds purchased for their own account and in the loans made to customers secured by government obligations. This burden must be carried by banks in face of a full appreciation of the fact that they must continue to remain liquid. Banks must, however, look forward to the day when the burden shall be lightened.

Is not, then, the problem partly solved if the securities to be issued by the government be of such short term in the present instance so that the banks may look forward to a time within a brief period of, say, five years, when they not only may, but must be, relieved of the burdens now to be assumed?

Any depreciation in the price of short-term securities increases the interest yield with such rapidity that it is inconceivable that five-year bonds could go to any substantial discount. A drop of one point in a five-year security increases the interest yield nearly one-quarter of 1 per cent, and two points nearly one-half of 1 per cent. This rapid increase of yield, a rapidity which is entirely due to the short term, will be the most potent factor in maintenance of prices that can possibly be found. Until such time as distribution of outstanding securities becomes so complete that digestion can be said to have taken place it is of the utmost importance that prices be held at levels which will not frighten the investing public.

A five-year obligation does not, apparently, react to the benefit of holders of Liberty Loan 4s, but, inasmuch as special legislation must in any event be necessary for short term securities, it would seem to be a simple matter to provide a special privilege to holders of Liberty Loan 4s to convert their present holdings directly into the short term issue. Such a privilege would forthwith advance the price of Liberty Loan 4 per cent bonds to parity or close thereto, and would improve the feeling among present holders so that they would be more favorably inclined to the strong appeals which must be made for their further subscriptions.

The question of rate is, of course, a vital one. Four per cent obviously does not attract investment money to-day. The very fact that Liberty Loan 4s are selling on approximately a 4¼ per cent basis is conclusive evidence, not only that a 4 per cent rate does not attract, but that a 4¼ per cent rate does not attract. It would seem clear, then, in consideration of the volume of financing which must be done, that the rate must be made attractive, and the evidence is that that rate should be a 4½ per cent rate.

From these reasons the conclusion may be drawn that a five-year 4½ per cent bond would appeal to the public, and not only would be assured of success in its flotation, but would react upon existing Liberty loans so that sentiment relative to them would be improved to the point where less liquidation and a better market would unquestionably occur.

The suggestion has been made that a short term issue of this character be made convertible at maturity into a long term 4 per cent issue. My own feeling is that after the close of the war and with finances approaching a more normal condition the government will be able to refund any outstanding short term issues in large volume at at least a 4 per cent interest rate and possibly at a lower rate. If, however, the convertible feature will popularize the issue it would seem desirable.

The next issue of government bonds must be made a tremendous success, and the degree of success to be attained depends in large measure upon the satisfactory solution of the problems of detail which are now under such constant consideration by the bankers of the country.

The Menace of Coolie Labor

Proposal to Import Workers From Japan and China Fraught With Danger, Says Observer in Far East

By Herbert Fitch

Nara, Japan.

THE QUESTION whether it is expedient to introduce Chinese or Japanese labor in vast numbers into "white" countries, "for the period of the war only," seems now to be in vogue in many parts of the world. In Australia no agitation in favor of such a proceeding is likely to make great headway, for in that country they have long since decided flatly that they will have nothing but a "white Australia," whether they ever succeed in getting a large population or not. There has been, it is true, some little talk of opening up the "Northern Territory," a tremendous undeveloped tract, to Orientals, at the same time preventing them from crossing into the older and more settled portions. At present they are admitted to Australia only upon payment of an almost prohibitive head tax. Yet many Canton Chinese have paid this tax, have come in, and have captured most of the small produce business around Sydney, driving out white competitors.

The chief arguments against admitting other than Western Europeans and Americans seems to be that, once in, they will breed alarmingly, even to a greater degree than has been experienced in countries that have admitted southern and eastern Europeans in hordes. There is the additional grave danger of promiscuous miscegenation. Australians, who have stubbornly maintained a slowly growing country principally of British stock, may perhaps be prone to magnify the dangers that might result from mixing of the various races. Then, again, perhaps they are entirely right. Rapid growth is not everything. There is a tree in Hawaii that takes root wherever the limbs touch the ground—and they are always touching—but this tree is not to be compared to the oak!

To understand such a serious question one must devote considerable study and thought to the economic situation in the Far East, rather than accept trustingly the opinions of those who speak as "authorities."

Japan Already Is Overcrowded

The Chinese have a big country, even now quite sufficient in arable lands to support the increasing population, if economic conditions there were not entirely chaotic. As it is, the Chinese have to struggle incessantly. Occasional partial crop failures cause widespread suffering and starvation.

But in Japan the situation is even more serious. I wish it might be impressed upon the reader's mind how serious it is. Japan is already overcrowded, and yet has each year an added population of around 750,000 to take care of. These are poured out upon a limited arable area. Years ago, when England became somewhat overcrowded, intrepid Englishmen spread over the earth, and founded colonies everywhere. Other European nations have done the same. What is Japan to do? Why, it is one of the most serious problems, next to the great war, that exist to-day; and yet people will go on prattling as to what the Japanese *ought* or *ought not* to do, never thinking that "necessity has no law"—particularly in a country where even the meaning of race suicide is unknown. The Japanese are inevitably crowding; crowding each other, this way and that, like a theatre mob. Their lands, through intensive cultivation, have been made to yield their utmost. The Japanese *must* overflow somewhere.

Workers Do Not Fare So Badly

In Japan there are no really independent workers. The relations between employer and employe do not greatly differ from those that existed in Europe and America in earlier days. The *oyabun*, or "parent party," is both employer and protector; the *kobun*, or "child party," is the employe and protegé. The mutual feelings, I should think, might be like that of foster father and son. As a rule, the *kobun* does not fare badly. He is usually not overworked, and does not need to hurry, for no one hurries in Japan. The *kobun* is not, however, a poor "bound boy," like the type vividly portrayed in English language novels of the nineteenth century. The relation is perhaps more in the nature of patron and satellite.

I have often observed the workers in the almost countless shops of great manufacturing cities like Osaka, Nagoya, Tokio and Kioto While my modern ideas of the essential "equality" and dignity of "hand labor" can never permit me to look with equanimity upon any system that does not grant equal opportunities to all to expand and improve in this highly commercialized yet "democratic" world, still I believe the position of the *kobun* is rather better in many ways than that of many industrial workers in countries where are presented greater contrasts between the glowing success of a few, and the glaring "unsuccess" of others. To illustrate, in Osaka (the "Pittsburgh of Japan," as some extravagant person has miscalled it) I walked miles upon miles, day after day, through labrinths of streets, and I could find nowhere such evidences of utter degradation and hopelessness as I have seen with my own eyes in many smug commercial cities throughout the white world. I am not an "expert investigator," so I walked daily, instead of being personally conducted in a motor by a government official and "shown" everything, according to a carefully outlined itinerary. So there is something to be said in favor of the *oyabun* and *kobun* system that continues to exist almost the same as in feudal days before Japan accepted the standards of Western civilization.

Disgraceful Episode Teaches Lesson

One who cares to study the history of importation of Oriental labor to other countries does not have to go far. The defeat of the conservative party in England in 1906 resulted, to a great degree, through the strong feeling aroused among the more humanitarian and less commercial English people against the results of the exploitation of Chinese contract laborers in the Rand mines, South Africa. Sixty thousand coolies were herded in compounds without their women folk. Conditions became intolerable. Even the reports of the consul on this question were suppressed, but enough became known to condemn the scheme for all time. Yet this question will always be raised adroitly whenever imagined or real exigencies lead to a cry for "cheap labor." Human nature has not changed very much—either on the part of employers hungry for labor or on the part of really hungry laborers, who are sometimes led by glowing offers to sign themselves away. Of course, if the very existence of any nation is pivoted upon the question of bringing indentured men in hordes to its shores, then by all means let the nation itself bring them in forthwith; but in the name of "liberty and love of country" let no *individual* gain one cent thereby. The South African disgrace stands as a record for all time to make all men think whether they care to assume the dreadful responsibility that accompanies wholesale importation of men without families. I say that laborers of any race—herded and driven into strange lands, without the humanizing influences of their families to hold them in check—emphatically do not, and *cannot*, make for ultimate human progression in the long run, whatever may be said in extenuation on the grounds of "necessity." Too many deeds, I think, have been done through "necessity."

The Australians have doubtless pictured in their minds the revolting South African story, and will have none of it in their isolated but fortunate country.

There is, I am aware, no point of comparison between the Chinese or Japanese coolie, or unskilled laborer, and the skilled workman. The condition of the coolie is almost hopeless. But take sixty thousand of either kind from their beloved soil, away from the influences of filial piety, herd them in steerage quarters, transport them to the uttermost ends of the earth, crowd them into compounds or "quarters" under native bosses—arrogant in their petty authority—all these under Caucasian head masters who are just ignorant enough to consider the "yaller man," the "Chink" and the "Jap" as less than human—and such a situation will develop as will not be to the lasting credit of the promoters.

Japanese Is a Family Man

The Japanese is essentially a family man. His average qualities are, it appears to me, equal to those of any race living under like environment. Wherever he has been granted freedom to expand—as he has under American influence in Hawaii, with his beloved family growing around him every day—he has become an economic factor such as the world must reckon with. To-day, in Hawaii, there are estimated to be more than 100,000 Japanese, out of a total population of 250,000. In 1860 there were 67,000 Hawaiians and only 2,786 foreigners of all races. Out of a total in 1917 of 46,695 plantation laborers 25,449 were Japanese, and there were but a handful of Americans—only 730 The latter cannot compete. Their "wants" are double. Japanese births in 1917 were 4,112; deaths only 1,246. American births were 285 and deaths 141.

The Japanese thrive, and if one forgets prejudice for a moment he may think that, after all, they have a right to prosper, for they are quite as industrious, as frugal and as studious as were the more nearly white races when they had little wealth and when men and women worked like horses. Less efficient competitors have, it is true, depreciated the "Japs," but the jealous criticism has not hindered their expansion in the least wherever they have had the opportunity to build a fireside and a family.

Picture these Eastern men, emptied into the melting pots of strange lands and segregated from their cherished home ties and all that they hold dear. What is going to happen? The opportunist can tell one, for his glib tongue works loosely for his purse, all the time. But no one else can.

Hawaii has been a paradise for the Japanese. It is not difficult to imagine what the racial composition of these fair islands will be within less than ten years. Plantation directors want the Japanese, and they are right, from their point of view, which is probably the old one that "labor is nothing but a commodity." The Japanese are so prolific that they have as yet had no time to consider the more advance theories of the dignity and the rights of labor. When a man is certain each year to have one or two more mouths to feed he is not apt to consider deeply anything but the means to that end. Labor strikes in Japan have been rather a surprise, and sometimes a joke. The government does not tolerate any proceedings that look like what it is pleased to consider socialism. Even "dangerous thoughts" have recently come under the ban, although it has not been revealed whether the X-ray or the third degree was employed to uncover them. Strong Japanese labor unions may accomplish something some day, but it is sure to be a long struggle.

Harsh Measures Not Effective

Industrial employers who favor admission of hordes of Oriental workmen into Western countries are taking, I believe, a serious responsibility, and will do well to consider gravely the possible ultimate effect, rather than the immediate advantages to be derived. If the Japanese are brought into any white country they will be efficient in a much slower way than the "boss" has been used to. Even harsh measures will not serve to speed them up. They would suffer extreme torture rather than be driven. If their families do not come with them—and so far I have not heard that any one has proposed transplanting an entire Oriental city in any country of the West—who will be so daring as to assert that wholesale miscegenation will not result—no matter how many laws are made, or how much vigilance may be exercised? Let those who think they know most about this subject come forward and speak plainly to the public, but it would be a pity and a disgrace should arguments be based upon personal interest and temporary expediency. This great question is not one of passing moment, but is fraught with peril and danger to future generations

One who has spent enough time or study in Hawaii to realize these charming islands are now fairly Oriental in population, through the working of the simplest laws of nature, will not, I think, have much to say in favor of that convenient solecism of the melting pot. Hawaii's mixing cauldron seethes overtime; there are no intervals of quiescence. The student of ethnology has a fertile field for observation and—speculation. There is every gradation of color.

Industrial Hawaii has developed largely along the lines of "the easiest way." In no territory or colony has commercial success been more rapid or more solid.

But now, to-day, if one could have the wizard's power to found an ideal civilization in these Hawaiian isles of plenty and ease, would he, with open-eyed, self-centred deliberation, care to duplicate the racial heterogeneity that now exists?

One might ask any American whose home is in Hawaii, and ponder a long time over his answer.